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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
) CC Docket No. 93-124
Treatment of Operator Services)
Under LEC Price Cap Regulation)

ERRATUM

Southwestern Bell Telephone Company (SWBT), hereby files this erratum to its Comments filed in this Docket on July 6, 1993. After the filing was made, it was discovered that, due to clerical error, additional material was filed with SWBT's Comments that should not have been included.

Therefore, SWBT respectfully requests that the attached copy of the filing, with the additional material deleted, be accepted as the proper record copy of SWBT's Comments in this docket.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

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July 12, 1993

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In The Matter of

Treatment of Operator Services
Under LEC Price Cap Regulation

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CC Docket No. 93-124

COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT), pursuant to the Notice of Proposed Rulemaking released May 26, 1993,¹ hereby respectfully requests that the Commission reject the proposal to create a new service category for operator services in the basket for traffic sensitive switched access elements (Traffic Sensitive Basket). By implementing changes such as those proposed in the NPRM, the Commission adds more inappropriate pricing restrictions to LEC Price Cap Regulation, thereby further complicating it, and unnecessarily restricting the ability of Price Cap LECs to respond to competition.

I. INTRODUCTION.

The Commission originally noted a single objective with two parts for LEC Price Cap Regulation:

our objective, as with our price caps system for AT&T, is to harness the profit-making incentives common to all businesses to produce a set of outcomes that advance the public interest goals of just, reasonable, and nondiscriminatory rates, as well as a

¹ Treatment of Operator Services Under Price Cap Regulation, Notice of Proposed Rulemaking (FCC 93-203) (released May 26, 1993) (NPRM).

communications system that offers innovative,
high quality services.²

To date, virtually all of the modifications and "fine tuning" to LEC Price Cap Regulation have operated to constrict LEC pricing flexibility and to eliminate the underlying premise of price caps-- that LECs should have incentives to operate more efficiently and cost-effectively. The modifications have thus depressed the incentives to offer innovative, high quality services. The proposed change for operator services will push LEC Price Cap Regulation further away from its goal.

The Commission has the responsibility to carry out the Communications Act's stated policy of encouraging the provision of new services,³ and is also required, in determining the justness and reasonableness of rates, not to only make the rates just and reasonable for ratepayers, but to consider a fair return to the utility stockholders.⁴ Thus, if LEC Price Cap Regulation does not provide proper incentives for the introduction of new, innovative services, and does not consider the need to provide a fair return for LEC shareholders, it does not fulfill the Commission's responsibilities. Likewise, if a proposed change to LEC Price Cap Regulation does not provide proper incentives for the introduction of new services, and consider the need to provide a fair return to LEC shareholders, that change should not be made.

² Policy and Rules Concerning Rates for Dominant Carriers, 5 FCC Rcd. 6786 (1990) (LEC Price Cap Order).

³ 47 U.S.C. Section 157.

⁴ Nader v. FCC 520 F.2d 182, 201 (D.C. Cir. 1975).

II. THE PROPOSED PRICE CAP TREATMENT OF OPERATOR SERVICES SHOULD BE REJECTED.

LEC Price Cap Regulation has already been unduly complicated. The NPRM would further complicate LEC Price Cap Regulation by establishing a new "Operator Services" category in the Traffic Sensitive Basket. Banding limitations would apply to this new category similar to those that apply to other traffic sensitive categories (plus or minus five percent per year adjusted for changes in the basket's price cap index.)

This treatment would unreasonably restrict the pricing of operator services. Operator services must be allowed more flexibility because of the competitiveness of the market and because of the need to make LEC Price Cap Regulation less, not more, complex.

There is no apparent need to create a separate service category for interstate operator services.⁵ The history of price changes for interstate operator services within SWBT, like other of the price cap LECs, shows that prices for 0- Transfer, Line Status Verification or Busy Line Interrupt have not increased since these services were first tariffed. The competitive concerns listed below have led to these favorable pricing trends. Thus, no valid reason is listed in the NPRM to warrant any changes to price cap rules prior to the comprehensive LEC price cap review.

⁵ The operator services being discussed here are not services of companies who have generally been the subject of public reaction and who gave rise to legislation like the Telephone Operator Services Consumer Improvement Act (TOSCIA), and resulting increased regulation, such as Alternative Operator Services (AOS) providers. See generally, Orders in CC Docket No. 90-313. SWBT is in compliance with the regulations promulgated by this docket.

The Commission has previously recognized that parties bear a high burden of proof to justify price cap rules changes prior to the comprehensive review.⁶ Thus, to the extent that restrictive changes such as those proposed by the NPRM are proper at all, they would more properly await the comprehensive review.

A. The Operator Services Market is Competitive.

As has been noted in various state and federal proceedings (e.g., CC Docket Nos. 90-313, 92-77), competition is pervasive in the operator services market. This fact is underscored by the sheer increase in the number of operator service providers that have entered the market in the last five years.

Competition for 0- Transfer service arises from multiple forces. First, the consumer education campaigns undertaken by IXCs is a competitive force.⁷ AT&T aggressively promotes the use of "10288+0" and "1+800+321-0288" to "always reach an AT&T operator." Similarly, MCI has just recently launched a massive nationwide campaign for "Collect" service (1+800+COL-LECT). Both of these campaigns demonstrate the competitive nature of operator services and are substitutes for 0- Transfer Service. As callers learn they can reach their preferred carrier(s) through the use of access code dialing arrangements, the need for 0- Transfer Service decreases. Thus, access code dialing instructions provide competition to the 0- Transfer service at issue herein. Customers can also use a

⁶ Amendment of Part 61 of the Commission's Rules, 7 FCC Rcd. 6632 (1992) at para. 5.



⁷ In the case of AT&T, the Commission actually ordered AT&T to educate its customers on the use of access codes. See generally, CC Docket No. 92-77.

phone with the following dialing options to complete an operator assisted call 0-; 00-; 10XXX+0; 1+800+NXX-XXXX; 950+0/1XXX; 0+NPA+NXX-XXXX. All of these dialing options may not be able to be used for billing all calling cards from all phones, but the extent of options clearly places competitive pressure on the price of the LEC 0- Transfer Services.

Aggressive IXC customer education programs, which advertise alternatives to 0- dialing, exert significant pricing discipline on SWBT.⁸ Placing operator services in a separate basket will not allow SWBT the pricing flexibility it needs to meet this competition.

The use of "redialers" within the network is also a competitive force for the services at issue. In many instances, when callers dial either "0" plus a distant number (i.e., "0+"), or just simply "0" and nothing more (i.e., "0-"), their calls are "redialed" or "redirected" away from the LEC and presubscribed IXC to an alternative OSP. This is accomplished by placing "redialers" or "autodialers" within the network between the instrument and end office.⁹ In most cases, this action effectively blocks a caller

from being able to reach the LEC associated with the originating
line. As calls are "redirected without recourse", opportunity for



Since there is ample competition to SWBT operator services, there is no need to handicap SWBT's provision of these services through placing them in a new category with banding limits. These types of restrictions reduce the pricing flexibility needed to effectively compete with the alternative sources of supply.

B. The Addition of More Complexity to LEC Price Cap Regulation Further Reduces the Incentives to Introduce New Services.

The lack of pricing flexibility also reduces the incentives for SWBT to introduce new services. If such new

Commission concluded that rate element banding is not required to protect customers.¹³

III. EVEN WITHOUT THE PROPOSED CHANGE, LEC PRICE CAP REGULATION IS TOO RESTRICTIVE.

SWBT originally supported price cap regulation for LECs and continues to support the theory under which it was originally proposed. At the time it was first raised in a formal notice, SWBT believed it could offer great advantages for the introduction of new services. Since that time, however, the Commission has made numerous changes to that original concept, virtually all of which diminish the incentives to develop and offer new services. Given this background, it is especially important for the Commission to avoid further damaging LEC Price Cap Regulation as proposed in the NPRM.

Appendix A attached hereto and hereby made a part of this pleading is a set of charts which depict the types of changes that have already taken LEC Price Cap Regulation away from its original objective, as compared to the types of changes that have been made to AT&T Price Cap regulation.¹⁴ Appendix A illustrates that significant and numerous pricing restraints have been imposed on LEC Price Cap Regulation. SWBT contends that the trends in

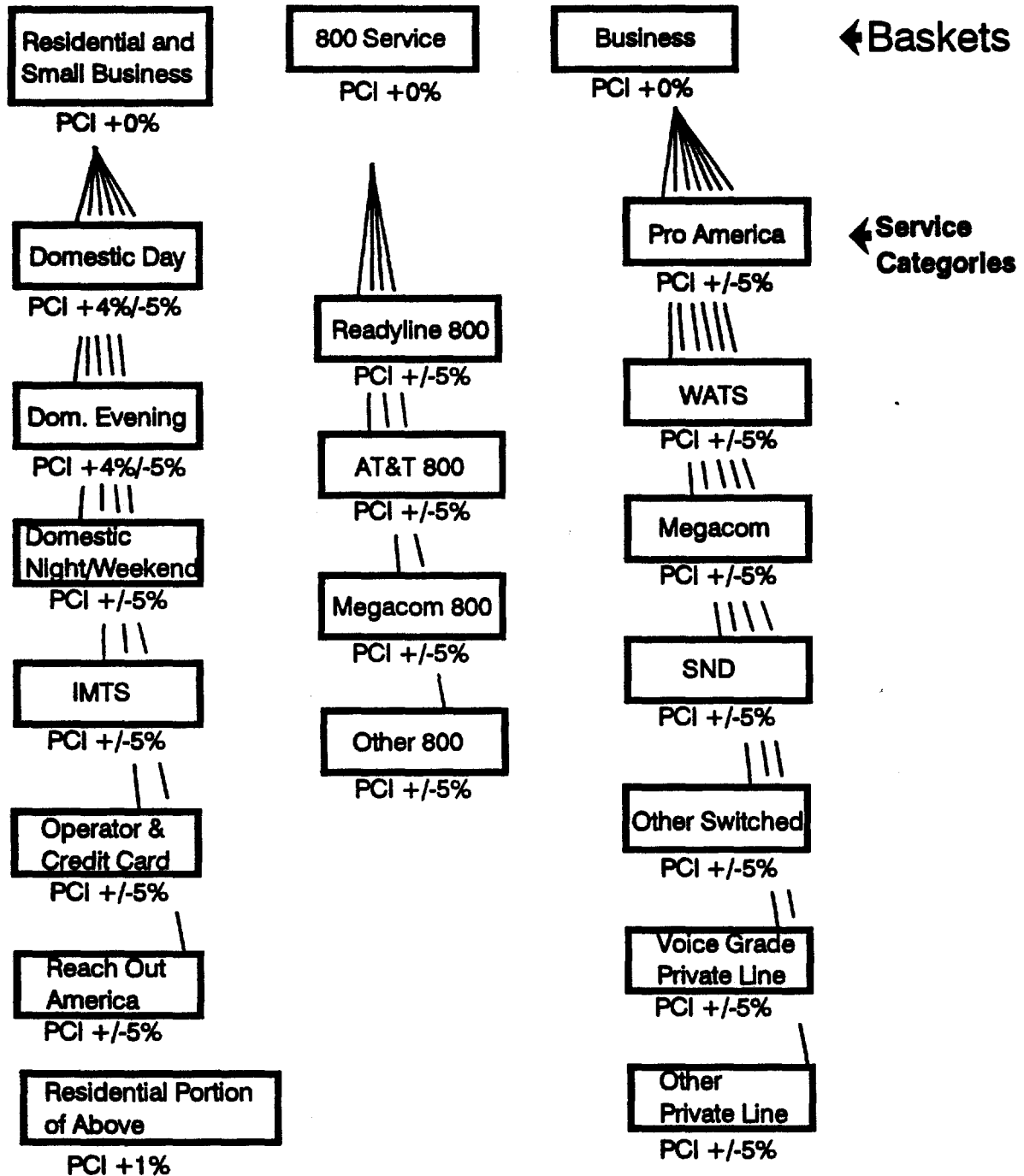
¹³ While the Commission defined narrow service categories for AT&T in lieu of rate element banding, the rate elements covered here are much more narrow than those service categories. Policy and Rules Concerning Rates for Dominant Carriers, 4 FCC Rcd. 2873 (1989) at para. 361.

¹⁴ See also, the comments of USTA being filed today in this proceeding. (USTA agrees that the Commission should resist further erosion of the incentives in the original LEC Price Cap plan.)

increased competition are not so different between the IXC and the LEC markets so as to warrant fundamentally different changes in pricing flexibility. Thus, the changes to the LEC Price Cap Plan are unjustified. Should the Commission persist in its proposal

AT&T Price Cap Plan At Implementation (7-1-89)

Each Basket has its own Price Cap Index (PCI) = Inflation - Productivity Offset +/- Exogenous.



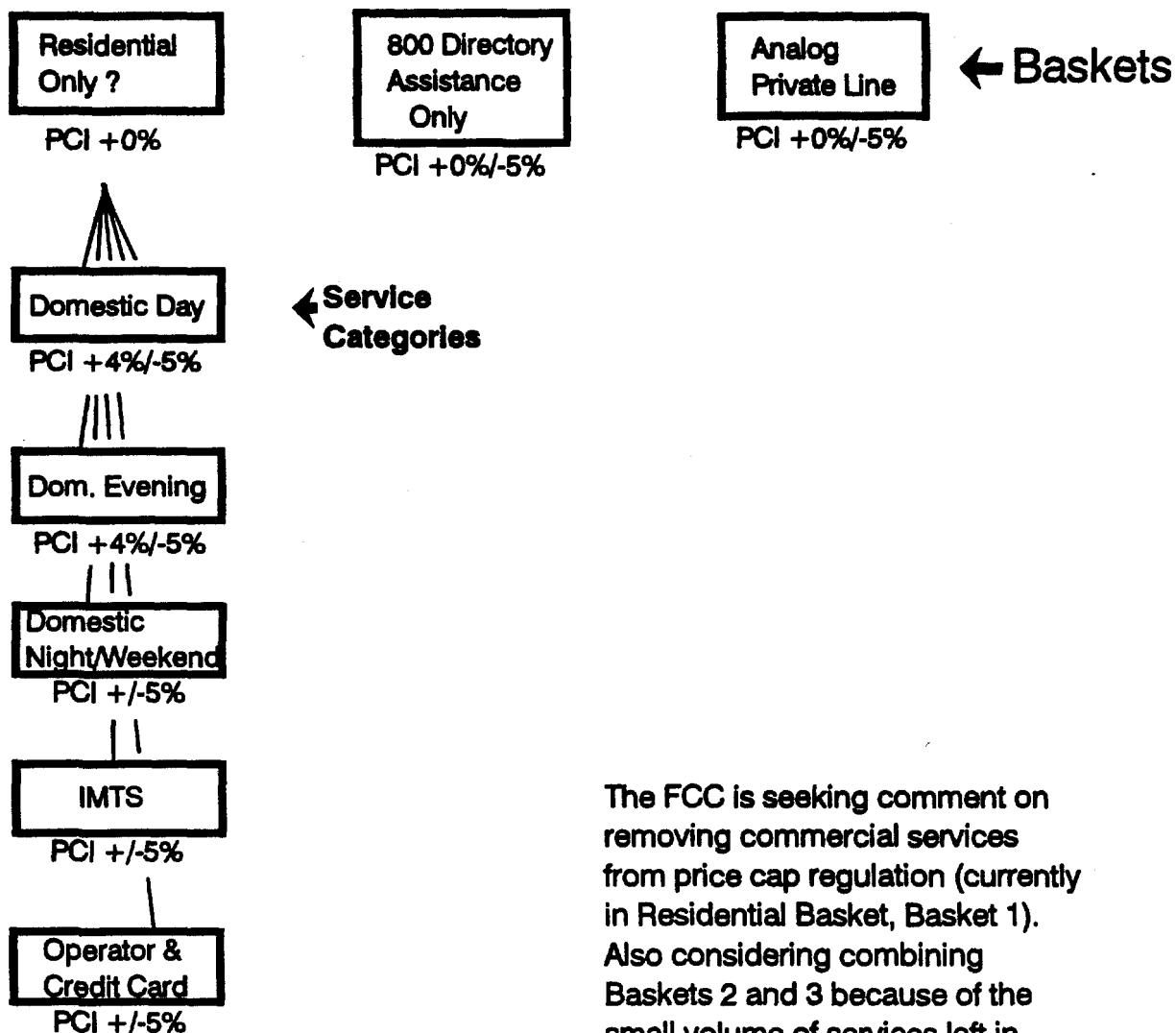
Productivity offset 3%. No sharing.

Excluded from price caps: Special construction, packet switching, Skynet, Tariff 11 services, Tariff 12 services (contracts, ICBs, special routing arrangements, Defense Network DTSN, VTNS), Tariff 15 services (Holiday Rate Plan, Competitive Pricing Plans), Tariff 16 services (FTS 2000, others)

AT&T Price Cap Plan

Now, with Proposed Changes

Each Basket has its own Price Cap Index (PCI) = Inflation - Productivity Offset +/- Exogenous.

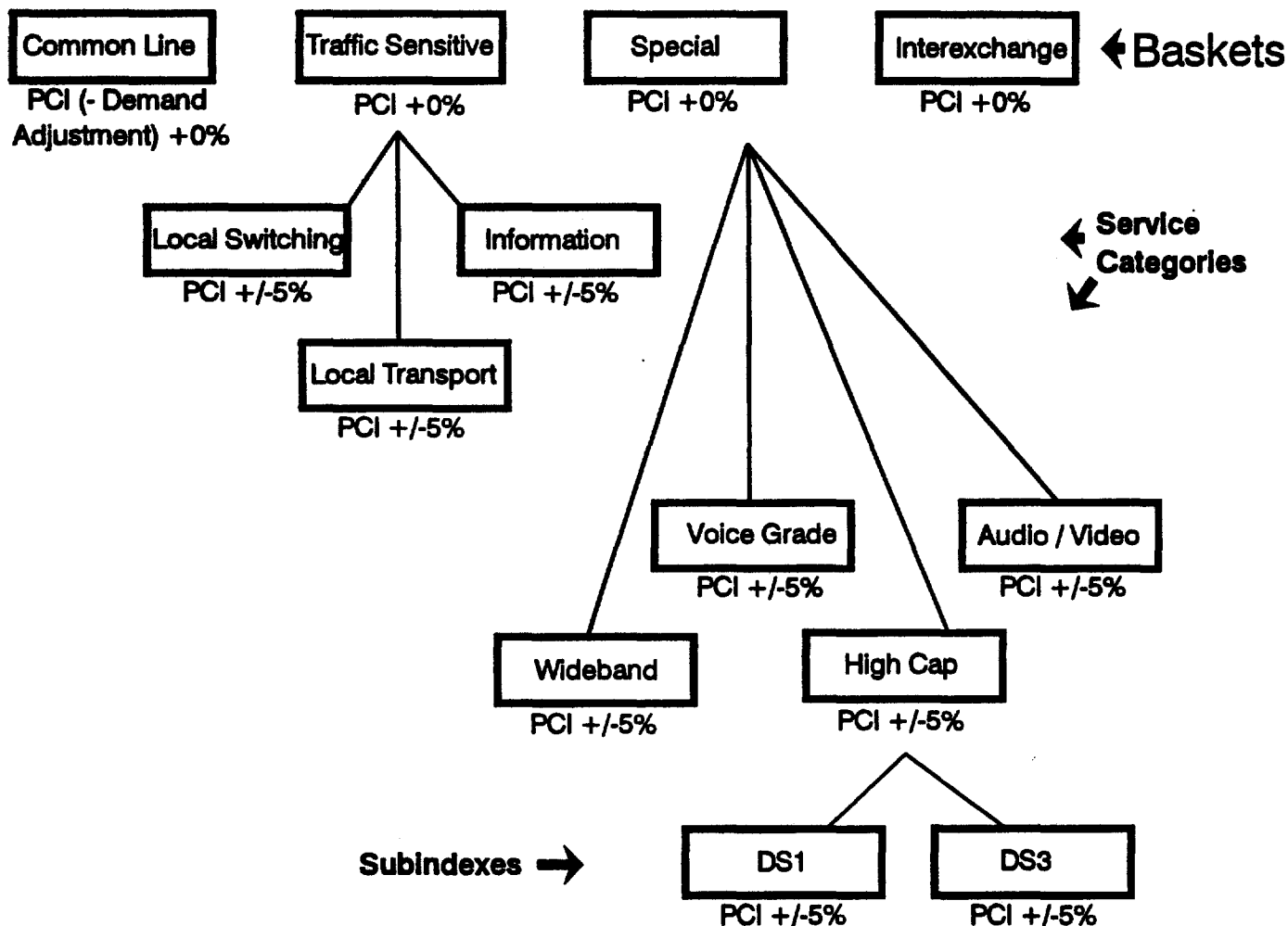


The FCC is seeking comment on removing commercial services from price cap regulation (currently in Residential Basket, Basket 1). Also considering combining Baskets 2 and 3 because of the small volume of services left in these two baskets.

Excluded from price caps: ReachOut and other Optional Calling Plans, business services (except analog private line) including digital private line, WATS, 800 service (except 800 Directory Assistance), switched services, Megacom, Pro America, special construction, packet switching, Skynet, Tariff 11 services, Tariff 12 services (contracts, ICBs, special routing arrangements, Defense Network DTSN, VTNS), Tariff 15 services (Holiday Rate Plan, Competitive Pricing Plans), Tariff 16 services (FTS 2000, others). AT&T has rapidly expanded its contracted and customer-specific services.

LEC Price Cap Plan At Implementation (1-1-91)

Each Basket has its own Price Cap Index (PCI) = Inflation - Productivity Offset +/- Exogenous.

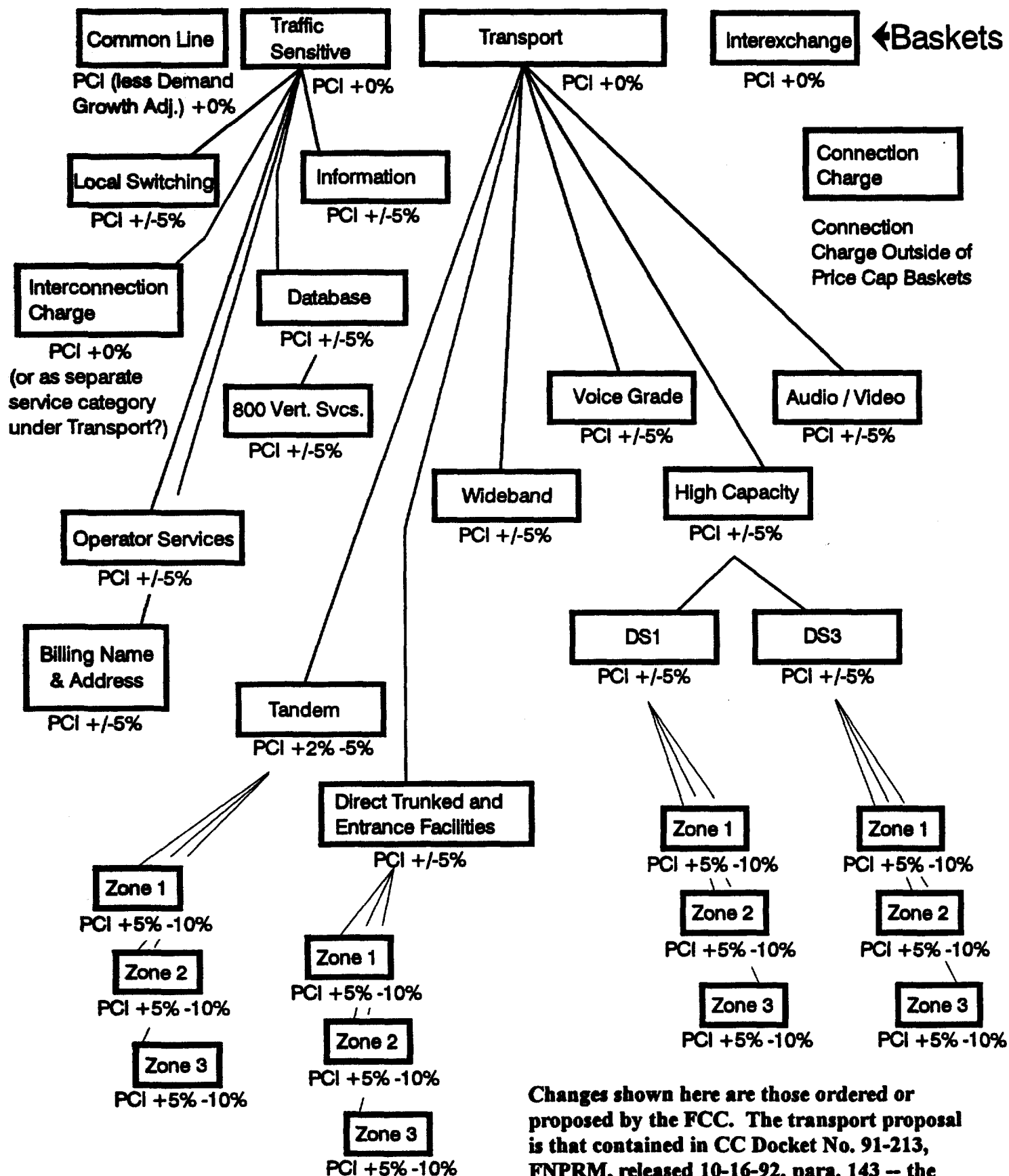


**Productivity Offset 3.3%, with 4.3% option.
50/50 Sharing, with eventual 100% sharing.**

Excluded from price caps: special construction; packet switching; PIC change charges; air-ground service; contract offerings in combination with Interexchange carriers for services to the Federal Government.

LEC Price Cap Plan Now, with Proposed Changes

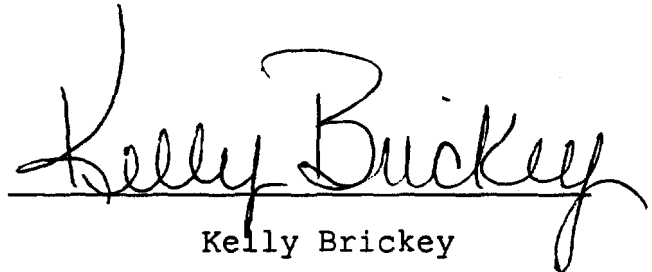
Each Basket has its own Price Cap Index (PCI) = Inflation - Productivity Offset +/- Exogenous.



Changes shown here are those ordered or proposed by the FCC. The transport proposal is that contained in CC Docket No. 91-213, FNPRM, released 10-16-92, para. 143 -- the long-term transport proposal.

CERTIFICATE OF SERVICE

I, Kelly Brickey, hereby certify that the foregoing "Comments of Southwestern Bell Telephone Company" in Docket 93-124, has been served this 6th day of July, 1993 to the Parties of Record.


Kelly Brickey

July 6, 1993

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